Fund Liquidation

Fund Liquidation or Fund Wrap-Up insurance covers a variety of identified or unknown issues surrounding the liquidation of an investment fund.

It typically covers warranties or indemnities still open from past divestments, identified or unknown tax exposures and/or contingent liabilities to accelerate a wind-up.

Each Fund Liquidation policy is tailored to transfer the identified liabilities to the insurer and ring-fence the various issues, allowing the fund to wind-down risk free.

Benefits

- Allows the fund to liquidate and return proceeds to investors without holding monies back, in escrow, on the Group balance sheet or using any clawback provisions.
- This insurance "wrapper" can cater to a variety of issues across many assets, providing financial protection post liquidation for the period of time that liabilities may still exist.
- Either the fund and/or the liquidator can be the policyholder

Areas Covered

- Warranties (general, tax or fundamental) still open from past divestments
- Identified or unknown tax exposures (WHT, CT, etc)
- Contingent liabilities (litigation, contractual, regulatory, etc)

Costs & Policy

- The policy is a non-renewable, one-off cost that can commence before, during or immediately after the liquidation process.
- They are multiyear policies in line with any indemnity arrangements with the liquidator or the exposures being covered; typically up to 7 years.
- Premiums are calculated on the exposures, portfolio and jurisdiction(s). They typically range between 2-10%.

FUND LIQUIDATION

"Fund Liquidation insurance can be a catch-all policy that provides peace of mind when closing a fund and allows faster distributions to investors"

CASE STUDY

A UK investment firm with a European fund had sold all of its portfolio investments. Across the portfolio of European assets, there were several indemnities in place given by the fund surrounding potential tax and contingent liabilities, as well as an indemnity arrangement being requested by the liquidator for any unknown exposures.

Even though the likelihood of these indemnification obligations being called upon is quite low, the investment manager is required to reserve for the full amount of the indemnification arrangements until their expiration in three years' time and so cannot make a final distribution to investors.

A Fund Liquidation insurance policy was arranged to accelerate the final distribution to investors and closing of the fund, giving the financial protection that was needed post liquidation until expiration of these indemnification obligations.